



**Three major agencies
prepare credit reports.
They are:**

- Equifax: (800) 685-1111,
www.equifax.com
- Experian (formerly TRW): (888) 397-3742,
www.experian.com
- TransUnion: (800) 888-4213,
www.transunion.com

What is a Credit Score?

A credit score is a number used by lenders to help determine if you are likely to pay back a loan on time. Your credit score is a picture of your credit risk at a snapshot in time, based on your capability and experience in repaying your debts. The Fair Isaac Corp. developed the most widely used credit score, which is known as FICO score.

Your credit score is based on information about your credit history, which is compiled in a credit report. The better your credit history, the higher is your credit score. How much a lender will let you borrow, and the rate of interest they will charge you, is determined by your credit score. This applies to all kinds of credit: credit cards, car loans, personal loans, and mortgages.

WHAT'S IN YOUR CREDIT REPORT?

Each agency may have somewhat different information or score your credit a little differently, but they all look at the same types of information to calculate your score. That information is:

- How do you pay your bills? (35%) Do you pay on time or are you late? Have you ever had an account referred to a collection agency? Have you filed for bankruptcy?
- How much do you owe? (30%) The amount of debt or money you owe is evaluated as compared to your credit limit. If you owe close to your credit limit, it could have a negative impact on your score.
- How old is your credit history? (15%) The longer you have had credit, the more points you get if you have a good track record. This means paying on time and keeping your credit balances low.
- How many and what types of credit do you have? (10%) Do you have a variety of credit accounts? Different kinds of credit, such as credit cards, mortgages, and car loans show how you handle money. But having too many credit card accounts may have a negative impact on your credit score.
- Have you made any new credit applications? (10%) Rate shopping for the best mortgage rate or car loan will not hurt your credit rating. But applying for too many credit cards or opening multiple accounts may have a negative impact on your credit rating.

Why Are Credit Scores Important?

Buying a house? Buying a car? Applying for a job? Applying for insurance? Chances are that someone will check your credit report. Why? Most lenders and employers want to know if you are a good risk. Do you pay your bills on time? Have you filed for bankruptcy? These are some indicators of your reliability and

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trustworthiness.

If you have a good credit history and a high FICO score, when you apply for a car loan or a mortgage you increase your chances of obtaining a lower rate of interest. What does this mean to you? A lower rate of interest on a loan means big dollar savings for you. According to Fair Isaac: "The difference in the interest rates offered to a person with a score of 520 and a person with a score of 720 is 3.45%." That adds up to a lot of money. Bankrate.com, an authority on financial matters, states that "on a \$100,000 mortgage over 30 years, that difference would cost more than \$85,000 extra in interest charges!

Most insurance companies now use credit reports to help determine what their customers pay for insurance coverage. According to the Allstate Insurance website, "Auto insurance policyholders with the least favorable scores are over 60% more likely to experience losses that are greater in number and severity than those with the most favorable scores. The dollar amount of losses experienced by homeowners' policyholders with the least favorable scores is more than twice as much as for those with the most favorable scores." This means that improving your credit score may reduce your insurance rates and help you save money!

Not only can your insurance rates and interest charges be affected by your credit report, but it can affect your employment options also. Many employers now check the credit reports of prospective employees, taking the view that information about how you handle your personal finances is a reasonable indicator of your ability to handle responsibility on the job. A bad credit report could jeopardize your ability to get a good job. Some employers also require employees to maintain a good credit report as part of their employment.

See "How to Improve Your Credit Score" for more tips on what steps you can take to raise your credit score and put yourself in a better position to save yourself money on loans. Also see "Free Credit Reports" for information on how you can obtain a free copy of your credit report annually from each of the three credit rating agencies. Consider staggering your three requests during the year to get the most up-to-date information.

Resources

Fair Isaac www.myfico.com

Federal Trade Commission www.ftc.gov

Allstate Insurance www.allstate.com

Consumer Credit Counseling Service www.cccservices.com